

IP-474

CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

3 August 1956

(Date)

MEMORANDUM FOR: Chief, Economic Research

ATTENTION: Chief, Planning and Review Staff

SUBJECT: Transmission of Draft Report, St/1 Project No. 10,1098

Title: Revision of CCI Country Handbook on Czechoslovakia

Author:

ENCLOSURE: Subject draft report (Original and two copies)

1. Enclosure is forwarded herewith for review and publication. Recommended category: ☐ IM ☐ MR ☐ FR ☐ RA ☒ Other.
2. Statement of coordination attached, with initials of individuals and their units.
3. Arrangements for maps and/or graphics through St/18 with Cartographic Division.
4. Recommended Association: ☐ Standard ☐ Requestor ☐ APOCUM
☐ EIC Subcommittee ☐ Other, (attach list).
5. Was information on US military and products or materials been used? Explain. **NO**
6. Has direct use been made of the intelligence or information of another agency. **NO**
7. Have all sources been considered in the preparation of this report? **NA**
8. Man-hours utilized by this division in producing this report: **31**
Branches of other CCI Divisions contributing to this report, and (if available) man-hours utilized by each: **M/AG, S/TR, S/COM, S/TR, D/I, M/P, M/TM, M/EFM, S/PM, M/ST**
9. Estimate Cards: ☐ Have been submitted to Central Economic Estimates File.
☐ Are attached. **NA**
10. The analyst responsible for consultation is:
[Redacted]
11. Gaps in Intelligence procedures of the Analysts' Manual Notice (check one):
a. Intelligence information gaps disclosed in this project are covered specifically in existing collection requirements. ☐
b. Those intelligence information gaps disclosed in this study which were not previously filed as requirements have been transmitted to St/1/8 in the form of a requirements memorandum, a copy of which is attached. ☐
c. Notice is inapplicable to this project. ☒
12. Comments:

25X1A

European Satellites Branch 2865

(Name)

(Branch)

(Extension)

25X1A

Chief, **Analysis** Division

The classification of this transmittal sheet will be changed to conform to the classification of the draft report which it covers.

REVISION OF OCI HANDEOOK - CZECHOSLOVAKIA

Delete last 9 lines of page 1 and first 2 paragraphs on page 2 and substitute following three paragraphs in "Current Issues" Section:

Goals of the Second Five-Year Plan (1956-60), first revealed during a series of industrial conferences held in the fall of 1955, continue to be discussed now as draft directives of the Plan. This draft, as issued on 3 May 1956, calls for a 48% increase in national income and a 33% increase in personal consumption over 1955, and more moderate rates of growth than achieved in industry and planned for agriculture under the First Five-Year Plan (1949-53). Gross industrial output is scheduled to increase 50% over 1955, producer goods output 57% and consumer goods output only 40%. If the plan is fulfilled, gross industrial output will increase on the average 8.4% per year during the next five years, as compared with an annual average increase of 11.8% ^{during} ~~from~~ 1949-55. Inasmuch as 90% of industrial growth over the next five years is predicated on increased labor productivity, major themes of current economic discussions are the need to introduce new technology and to extend mechanization, particularly in the mining, steel, and chemical industries, and in agriculture.

Gross agricultural output is to increase 30% during 1956-60. Current agricultural policy continues to support some of the reforms instituted under the "new course" program of late 1953. Although such incentives as reduced compulsory deliveries and credits to private farmers have not been retracted, a firmer tone on collectivization has been apparent since mid 1955. Current efforts are directed toward 1.) expanding the cooperative sector of agriculture in line with the policy to bring about the predominance of the socialized sector by 1960, and 2.) cultivating the approximately 300,000 hectares of idle land taken out of production as a result of the "new course" retrenchment program on collectivization and earlier shifts of agricultural labor to industry.

Simplification of planning through a gradual reduction of the number of plan indexes and transfer of some planning responsibilities from ministerial to local levels, as well as a shortening of the work week at the end of the Second Five-Year Plan have been recently announced.

Change first paragraph on page 9, beginning with line 5, to read:

"Industrialization". Following the death of Stalin in 1953, Czechoslovakia, along with other East European bloc countries, adopted a "new course" referred to in Czechoslovakia as a policy of "proportionate growth." Under this policy the rate of industrial growth was decelerated in order to correct imbalances which had developed through forced industrialization. Some aims of this policy, such as the expansion of the raw materials base of heavy industry and the development of agriculture, continue to be emphasized under current plans. "New course" policy has been modified somewhat in 1956, however, permitting producer goods to grow more rapidly than consumer goods."

Change Page 12

"E. International Commitments" to:

1. Czechoslovakia has treaties of friendship, collaboration and mutual assistance with the USSR and all the East European Satellites.
2. It also has technical, scientific collaboration and cultural agreements with the USSR, all the ~~Eastern~~ European Satellites and Communist China.

Change Page 13

"4. Trade Agreements" to:

In addition to trade agreements with all of the Bloc countries, Czechoslovakia has formalized trading relations with numerous Western countries. Since 1 January 1955, new agreements (including those that had previously lapsed) have been signed with: Uruguay, Egypt, Iran, Sudan, Burma, Ceylon, and Sweden.

For pages 16-25 substitute:

III. ECONOMIC

A. Currency

1. Basic Monetary Unit: Crown.
2. Exchange Rate: 7.2 crowns = US \$1 at the official rate; 1.8 crowns = 1 ruble.

B. Banking System: All banks operate as part of a unified banking structure under the control of the Ministry of Finance. Because banking transactions are conducted within the framework of a financial plan, banks act more as monitors of economic plan fulfillment than as banking institutions in the Western sense. The present banking system includes three banks: 1. a State Bank which regulates currency circulation, controls foreign exchange transactions, and grants short term credit; 2. an Investment Bank which supervises financing of investment and long term credits; and 3. a State Savings Bank which administers workers' savings and social benefits.

C. Economic Trends

1. Basic Economic Factors: Czechoslovakia is one of the most industrialized countries of Eastern Europe. The Communists have reorganized the structure of industry by shifting emphasis from light industrial manufactures, notably textile and leather goods, to the output of producer goods. Because of the preoccupation to expand heavy industry and to industrialize once backward areas as Slovakia during the period of the First Five Year Plan (1949-53), agriculture was seriously neglected. Although greater attention has since been given to this sector, its production is estimated as still below prewar, and the country remains more dependent on food imports than in the prewar period.

In 1955 Czechoslovakia produced an estimated gross national output of 11 billion US Dollars (at 1955 prices), which accounts for about 1% of the total GNP of the East European Satellites. In 1955 Czechoslovak GNP was 65% higher than in 1948. Because of concentration on producer goods, almost none of the benefits of this growth had been passed along to the populace. Under the "new course", however, some efforts have been made to increase the supplies of consumer goods and foodstuffs. Results of these efforts were apparent by the end of 1954 and during 1955.

2. Currency Stability: Because of the unsuccessful attempt to repress inflation through rationing, Czechoslovakia abolished its dual price system on 1 June 1953 in conjunction with a drastic currency reform. This reform not only greatly reduced currency in circulation, deposits of organizations, and individuals, but also official rates of exchange of the

With the currency reform, the crown was officially tied to the ruble. Thus the official rate of exchange of the crown to the US dollar changed from 50 to 1 to 7.2 to 1.*

Since the currency reform there have been five general price reductions, which have increased pre-reform purchasing power. Due to the high cost and non-availability of certain essentials, however, the scale of living is probably still below that of the prewar period.

3. Government Controls: Under the Benes government (1945-Feb. 1948), about 65 % of industrial enterprises were nationalized. The Communist regime speeded the nationalization process, and since 1950 virtually all industry, transportation, foreign trade, and finance have been nationally administered. State ownership has been extended to a far lesser degree over construction, retail trade, and agriculture. About 43% of the arable land is farmed by state farms and cooperatives. Although cooperatives are state-regulated, they are not state-owned.

D. Annual Budgets (in millions of current Czech crowns)*

	<u>Total Budget</u>	<u>Military & Security Expenditures</u>	<u>Mil. & Sec. Exp. as per cent of Total Budget</u>
1956	89,887	9,606	10.7
1955	86,039	10,430	12.1
1954	87,573	7,787	8.9

E. Soviet Economic Aid: Economic aid from the USSR has been confined since 1950 to scientific and technical assistance. No gold or foreign currency loan has been granted since 1949.

* The official rate of exchange set by the Czechoslovak Government (7.2 crowns - US \$1) overstates the value of the crown. A satisfactory rate for conversion of crowns to dollars is not available.

F. Natural Resources

1. Agricultural: The agricultural sector comprises 12,958,000 acres of arable land, (approximately 5% thereof unutilized in 1955), employs about 30% of the total labor force, and in value of production contributes approximately 16% to the gross national product.

The chief cultivated crops are ¹⁴grains, potatoes, and sugar beets. Livestock and animal products amount to about 35% of the total value of agricultural production. Industrial wood production was 8 million cubic meters in 1955, less than one-fifth of European Satellite production.

Sugar, hops, and timber are exported. Agricultural imports have increased considerably since prewar, especially grains, which currently amount to about one million metric tons annually.

2. Mineral: Iron ore, manganese ore, mercury, copper, lead, zinc, and iron pyrites are produced, but none in sufficient quantity to supply domestic needs. Antimony production is sufficient to allow small exports. Uranium ore is mined for export to the USSR.

3. Fuel: Coal supplies about 97% of Czechoslovakia's primary energy. Coal production was 63,900,000 metric tons in 1955, about 16% of European Satellite output. Sizable shipments of coal from Poland make Czechoslovakia now a net importer of coal.

G. Industry

1. Capital Goods: Czechoslovakia has the largest armaments and iron and steel industry of the Satellites. Crude steel production totaled 4,500,000 tons in 1955, roughly one-third of European Satellite production. Machine tools and other heavy engineering products, precision, electrical, transportation, and agricultural equipment more than meet internal requirements, although certain specialized products in each of these categories are imported.

2. Consumer Goods: Production of almost all types of consumer goods is sufficient to meet requirements. Textiles, shoes, and glass are Czechoslovakia's traditional export items. The export of textiles is planned to be reduced, however, in order to meet domestic requirements.

3. Munitions: Chiefly small arms and ammunition plus some artillery, tanks, armored cars, and aircraft are manufactured. Czechoslovakia is an important producer of MIG-15 jet fighters and trainers with an estimated output of 45 planes per month. Production of the IL-14 (CRATE) conventional transport aircraft was initiated late in 1955, and a production rate of 2 per month will be reached by the end of 1956. In addition, the aircraft industry produces a variety of light sports aircraft, utility-liaison and small transport types, many of which are exported. Military end items for the ground forces more than meet domestic requirements.

H. Foreign Trade

1. Trade with the West: Czechoslovakia's trade with Free World

countries was valued at approximately \$600 million in 1955. Western Europe accounted for over 50% of Czechoslovakia's total exports to and imports from the Free World. Exports to countries in Latin America and the Near East and Africa were 17 percent and 12 percent respectively. Imports from these areas were of approximately the same magnitude. Total exports to the Free World in 1954 amounted to \$238 million, of which manufactured goods represented 31 percent; machinery and transport equipment, 14 percent; and crude materials, 12 percent. Total imports for 1954 approximated \$186 million. Of this amount, crude materials represented 38 percent (textile fibers constituted about 70 percent of this category); food, 32 percent; and manufactured goods, largely base metals and manufactures, 10 percent.

2. Trade within the Sino-Soviet Bloc: In 1955, 71 percent of Czechoslovakia's total trade was with other Orbit countries. Principal exports were: capital goods, transportation equipment, electrical and technical apparatuses, and chemicals. Principal imports were agricultural products, industrial raw materials, industrial equipment, and petroleum products.

3. Balance of payments: There is not sufficient information available on Czechoslovakia's trade and financial relations vis-a-vis other Orbit countries to enable the construction of a balance of payments. According to Free World statistics, exports from Czechoslovakia in 1955 exceeded her imports from Free World countries by \$81 million.

I. Telecommunications

1. Domestic

a. Telephone and Telegraph: The wire telecommunications system provides adequate coverage for civilian and military needs. Its efficiency is about equal to that of modern Western European countries. The network, operated by the government, is densest in the northern and central industrial regions of Bohemia and Moravia and in western Slovakia. In January 1955 there were 410,000 telephones, mostly automatic, including about 75,000 in Prague. The telegraph system, to a large extent utilizing teleprinters connected by an underground cable network, is as extensive as the telephone system. In addition, the Communist party, army and security police operate independent telephone and teleprinter nets.

b. Radio and Television: The radio communications facilities are of a generally high standard but are subordinate to the wire facilities. They are estimated to be in good operational condition and provide adequate, efficient and dependable

service. The 24 transmitters of the state-operated broadcasting system cover practically all the country except certain mountainous areas of northern and eastern Slovakia. By the end of 1955, there were about 2,900,000 radio receivers in the country, about 60 percent of which, though mostly prewar models, are capable of receiving foreign broadcasts. In addition, wire-diffusion radio is being rapidly expanded by the government. By the end of 1955 approximately 50,000 loudspeakers were in use. Television broadcasting was inaugurated with much fanfare on 1 May 1953; to date, only 2 stations (Prague and Ostrava) are in operation. Additional stations are planned for Bratislava, Brno, and Hradec Kralove.

2. International: The international telecommunications facilities are an extension of the domestic system. They consist of land-lines to all bordering countries, and radio facilities for broadcasting to Eastern and Western Europe, North and South America, and to Czechoslovakia abroad. All international broadcasts originate in Prague. Western broadcasts to Czechoslovakia are effectively jammed in Prague and most urban areas of Bohemia, but less effectively in other areas of the country.

J. Transportation

1. Railroads: Railroads are the most important agency of transportation in Czechoslovakia, accounting for more than 85 percent of total inland freight transport. The Czech State Railroads (CSD) operate more than 8,300 route miles of track, all but about 100 miles of which is standard gauge. Approximately 120 route miles of the system are electrified. The network is most dense in the western provinces and least developed in Slovakia. The principal route is a double track line running from Prague through Kosice to Cierna in Eastern Slovakia on the Soviet border. There is a large transloading station at Cierna where the system connects with the broad-gauge Soviet rail network. The system also connects with the Polish, Hungarian, East and West German and Austrian networks. Czech railroad operation is generally efficient, but hampered by a shortage of rolling stock.

2. Roads: Highway transport is well developed in comparison with other Eastern European countries. Highways are an important supplement to the railroad system, acting primarily as a feeder service. There are about 43,500 miles of roads, about 0.88 miles per square mile of area. Most of the principal highways have concrete, asphalt or bituminous surfaces, with widths varying from 16 to 36 feet. Sharp curves and steep grades make

driving hazardous in bad weather. Snow, especially in Slovakia and the mountainous border areas of Bohemia, interrupts traffic in winter.

3. Merchant Marine: In addition to chartering a large number of ocean-going vessels, primarily for the China trade, Czechoslovakia owns three merchant vessels which sail from Polish ports.

4. Inland Waterways: Though poorly situated in relation to industrial and agricultural centers, the two principal inland waterways - the Elbe and Danube systems - permit water access to the North and Black Seas; and a third system - the Oder - links the country with the Baltic Sea. Hamburg, at the mouth of the Elbe, is an important transshipping center for Czechoslovakia's overseas foreign trade. In 1955 river transport accounted for about 7 percent of total freight traffic in Czechoslovakia.

5. Civil Airlines: The Czechoslovakian air carrier Ceskoslovenske Aerolinie (CSA) has approximately 40 twin-engine transport aircraft including DC-3's, Li-2's and Il-14's.

Internal routes link the major cities and converge on Prague; external routes serve Moscow and the European Satellite capitals as well as Belgrade, Yugoslavia. International services to the West include routes to Paris, Copenhagen, Stockholm and Helsinki. Airlines serving Prague, in addition to those of the European Satellites and the Soviet carrier Aeroflot, include Air India International, Swissair, Air France (KLM) Royal Dutch Airlines, ~~Belgian~~ Belgian Airlines (SABENA).

Principal civil airports are at Prague (Ruzyně) and at Bratislava (Ivanka).

On page 29, line 2: Change population to 13,090,000

(Estimated)
as of
mid-1955

S-E-C-R-E-T

CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

Project Action Memorandum

Project No. 10.1098
Date: 1 May 1956

TITLE: Revision of OCI Country Handbook on Czechoslovakia

REQUESTER: OCI

STATEMENT OF THE PROBLEM AND TERMS OF REFERENCE:

Problem: To review, revise and up-date the pertinent economic portions of the OCI Handbook on Czechoslovakia.

Terms of Reference: (1) Special attention should be paid to deletion of material no longer having current significance or background value and to adding information on recent important developments.

(2) 1955 data should be added wherever possible.

(3) Total length and outline should remain the same.

RESPONSIBILITY:

		Man-hours	Due Dates	Concurrence (Initials)
Action Division:	D/A		25 Jul 56	<u>RVE</u>
Branch:	A/E	20		
Contributing Divisions:	D/M	5	19 Jul 56	<u>Hull</u>
	D/S	10	19 Jul 56	<u>Russ</u>
	D/I	5	19 Jul 56	<u>Z. Z. J.</u>
Staffs:	25X1A	St/PR		<u>R. R.</u>
25X1A		CSS		<u>J. H.</u>
Principal Analyst:	[REDACTED]	x 3362		
Project Monitor:	[REDACTED]	x 4585		

This project will not delay completion of currently scheduled projects.
The classification of this project will be no higher than SECRET.

APPROVED C. R. H. Ch/E

S-E-C-R-E-T